

U2L  
901-07-05

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INTERNAL REVENUE SERVICE

DEPARTMENT OF THE TREASURY

DISTRICT DIRECTOR

Date: December 20, 1996

> Refer Reply to:

> Person to Contact:

> Contact Telephone Number:

Dear Sir or Madam:

In a determination letter dated \_\_\_\_\_ you were held to be exempt from Federal income tax under section 501(c)(7) of the Internal Revenue Code.

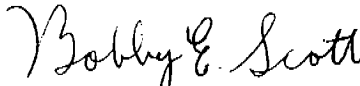
Recent information received disclosed that your organization is not operating in accordance with the provisions of section 501(c)(7) of the Code.

Accordingly, your exemption from Federal income tax is revoked effective, \_\_\_\_\_ On \_\_\_\_\_ you signed a statement in which you agreed to the revocation of your exempt status under section 501(c)(7) of the Code. You are now required to file Federal income tax returns on Form 1120 for all years ending after \_\_\_\_\_

This is a final adverse determination letter with regard to your status under section 501(c)(7) of the Code.

If you have any questions, please contact the person whose name and telephone number are shown at the beginning of this letter.

Sincerely,

  
Bobby E. Scott  
District Director

Enclosures:  
Form 886-A  
Form 6018

|                  |                      |                         |
|------------------|----------------------|-------------------------|
| Form 886-A       | EXPLANATION OF ITEMS | Schedule No. or Exhibit |
| Name of Taxpayer |                      | Year/Period Ended       |

FACTS:

1. was incorporated on . . . . .  
The Organization received its tax exempt status on . . . . ., and was recognized as a social club as described under IRC 501(c)(7).  
The golf club has an established system of memberships available for persons who actively share the same interests or goals.
2. The club is available to the public throughout the entire year.
3. The Organization promotes nonmember income by solicitation of the general public to utilize club facilities.
4. Rev. Proc. 71-17, guidelines are not followed.
5. Analysis of the gross receipts generated by the organization for the three-year period ending . . . . ., has disclosed nonmember receipts to be at least 43% for each year. These nonmember receipts include sales from the bar and restaurant, which was computed based on a weighted percentage. The Organization did not keep records of nonmember receipts for the bar and restaurant, but records were kept for "daily membership" receipts.  
Daily memberships are described as daily fees charged to nonmembers who pay to access or use the facilities.
6. It was determined that daily membership fees are actually green fees charged to non-members.

LAW:

Reg. 1.501(c)(7)-1(b), has established that, "A club which engages in business, such as making its social and recreation facilities available to the general public . . . , is not organized and operated exclusively for the pleasure, recreation, and other nonprofitable purposes, and is not exempt under section 501(a)."

Rev. Proc. 71-17, guidelines are required to determine under what circumstances and to what extent the organization makes its facilities available to nonmembers.

Rev. Proc. 71-17, as amended by Public Law 94-568, allows for the reference "exclusively" to be changed to "substantially all", so that, the intent of Congress is that a tax-exempt social club can receive up to 35 percent of its gross receipts from investment income and nonmembers, as long as the latter do not exceed 15 percent of total receipts.

Solicitation by advertisement or otherwise for public patronage of its facilities is prima facie evidence that the club is engaging in business and is not being operated exclusively for pleasure, recreation, or social purposes.

|                  |                      |                         |
|------------------|----------------------|-------------------------|
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**CONCLUSION:**

\_\_\_\_\_, does not meet the operational requirements of Reg. 1.501(c)(7)-1(b) and therefore, is not organized and operating substantially for the pleasure, recreation, and other nonprofitable purposes of its members.

Gross receipts generated from nonmember income are substantial, at least 43 percent, and consistently more than 15 percent on an annual basis.

The concern in this regard is not with the situation where a club member entertains a few guests at his or her club, but where a club's facilities are made available to the general public on a regular and recurring basis, thereby removing that segment of the public from the marketplace of competing commercial operations.

**REVOCATION:**

Revocation of tax-exempt status is warranted to be effective  
 As a taxable entity, the \_\_\_\_\_ is required to file  
 Form 1120, U.S. Corporation Income Tax Return, as required by IRC 6501(g) for  
 the taxable period ending (\_\_\_\_\_) and thereafter.  
 As a nonexempt membership corporation, the organization is subject to Section  
 277(a) of the Internal Revenue Code.